



Report and Recommendation of the President to the Board of Directors

Project Number: 43120
June 2012

Proposed Loans, Grant, and Technical Assistance
Kingdom of Cambodia and Lao People's Democratic
Republic: Trade Facilitation: Improved Sanitary and
Phytosanitary Handling in Greater Mekong
Subregion Trade Project

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 8 May 2012)

Currency unit	–	riel/s (KR), kip (KN)
KR1.00	=	\$0.00025
\$1.00	=	KR4,038
KN1.00	=	\$0.00012
\$1.00	=	KN8,007

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AFF	–	agriculture, food, and forestry
ASEAN	–	Association of Southeast Asian Nations
GMS	–	Greater Mekong Subregion
Lao PDR	–	Lao People's Democratic Republic
MAF	–	Ministry of Agriculture and Forestry (Lao PDR)
MAFF	–	Ministry of Agriculture, Forestry and Fisheries (Cambodia)
PMU	–	project management unit
PRC	–	People's Republic of China
SPS	–	sanitary and phytosanitary
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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PROJECT AT A GLANCE

1. Project Name: CAM/LAO: Trade Facilitation: Improved Sanitary and Phytosanitary Handling in Greater Mekong Subregion Trade Project		2. Project Number: 43120																						
3. Country: Regional, Cambodia, Lao People's Democratic Republic		4. Department/Division: Southeast Asia Department/Public Management, Financial Sector, and Trade Division																						
5. Sector Classification:																								
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I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan to the Kingdom of Cambodia; (ii) a proposed loan to the Lao People's Democratic Republic (Lao PDR), and (iii) a proposed grant to the Lao People's Democratic Republic (Lao PDR), all for the Trade Facilitation: Improved Sanitary and Phytosanitary (SPS) Handling in Greater Mekong Subregion (GMS) Trade Project. The report also describes proposed technical assistance (TA) for Improving SPS Handling in Greater Mekong Subregion Trade, and if the Board approves the loans and grant, I acting under the authority delegated to me by the Board, will approve the TA.¹

2. The project will strengthen institutions and operational and management capacities in Cambodia and the Lao PDR for operating cost-effective SPS systems that facilitate trade and protect health.² The project will focus on GMS trade in agriculture, food, and forestry (AFF) products for which SPS measures for plant health, animal health, and food safety apply. The project will establish, strengthen, and implement (i) surveillance and inspection programs for plant health, animal health, and food safety; (ii) enhanced education levels and university training of SPS specialists; and (iii) regional cooperation and harmonization for SPS measures and practices. It will selectively strengthen food safety capacities of private food handling enterprises and restaurants in tourist areas. The project will be implemented by the national authorities in each country.

II. THE PROJECT

A. Rationale

3. The GMS regional cooperation strategy and program focuses on connectivity and competitiveness. While recent investments in physical infrastructure have created new opportunities for trade, GMS governments increasingly realize that weak legal, institutional, and administrative capacities hinder the optimal use of infrastructure and are insufficient to address trade-related health hazards. A number of initiatives have been launched to overcome such constraints, including the GMS cross-border transport agreement. The midterm review of the 10-year (2002–2012) GMS strategic framework reaffirmed the importance of trade and transport facilitation initiatives, including strengthened SPS capacity and cooperation. The essential SPS issues that need to be resolved to meet the development needs of the GMS were identified and a GMS action plan for SPS arrangements, 2010–2015 was formulated.

4. Trade in AFF products among GMS countries amounted to \$9.27 billion in 2009. This constituted about 13% of intra-GMS trade. Total GMS AFF exports grew more than fourfold from 2000 to 2009. Nevertheless, because of poor SPS management capacities, market access for a wide range of AFF products from Cambodia and the Lao PDR remains limited, both in the GMS and globally. The governments of Cambodia and the Lao PDR have not been able to protect their crops, livestock, and consumers against trade-related health hazards caused by plant pests, animal diseases, and food safety hazards. It is expected that, with better SPS systems in place, trade of AFF products from Cambodia and the Lao PDR will increase by about 10%–15% annually. Better SPS systems will also lead to reduced risk of crop, animal products

¹ The design and monitoring framework is in Appendix 1.

² ADB approved the concept note for the project and provided project preparatory TA in 2010. The Viet Nam project is under processing and may form part of the regional project under separate approval. SPS measures and issues are defined in the 1994 World Trade Organization Subsidiary Agreement on the Application of Sanitary and Phytosanitary Measures.

losses, and reduced incidence of food-borne diseases. Effective national SPS management systems are building blocks for regional harmonization and for establishing trust among GMS countries in each other's SPS measures.³

5. There is lack of human resource capacity to (i) undertake surveys on crop pests and diseases, (ii) manage inspections and interceptions of imported products, (iii) monitor the agricultural pesticide trade, (iv) understand the risks of forest pest spread associated with trade in wood and forest products, and (v) sustain and expand the regional trade in crop products. There is also a need to (i) contain transboundary animal diseases, (ii) improve surveillance of veterinary drugs and feed, (iii) maintain animal food product safety, and (iv) improve border clearance procedures. Information on food safety is scarce, characterized by inadequate monitoring of food, food establishments and food poisoning outbreaks. Although tourism in Cambodia and the Lao PDR is rapidly growing, it is vulnerable without adequate food safety supervision.

6. Compliance with global SPS requirements requires national specialists to undertake tasks related to surveillance, risk analysis, testing, diagnostics, pest identification, standards, and conformity assessment. Trading partners and private companies often require application of good agricultural practices, good manufacturing practices, and quality assurance management (such as hazard analysis critical control points). Cambodia and the Lao PDR lack specialists who can perform these tasks. These specialists need to come (in part at least) from graduates of national higher education systems that train SPS specialists. Strengthening capacities of SPS agencies is urgently needed to meet the increasing requirements for exports and trade facilitation, and to protect health.

7. **Policy and sector relevance.** The project is in line with the GMS 10-year strategic framework, 2012–2022 and supports the thrust to facilitate cross-border trade and investment. The project will contribute to pillar 4 (cooperation in regional public goods) of ADB's Regional Cooperation and Integration Strategy.⁴ The project is aligned with the targets of the National Strategic Development Plan Update, 2009–2013 of Cambodia and the National Socio Economic Development Plan VII, 2011–2015 of the Lao PDR. Improving SPS management is explicitly reflected in various Cambodia and Lao PDR sector strategies and plans, and in the GMS core agriculture support program.

8. **Lessons from trade facilitation and sanitary and phytosanitary development.** Trade facilitation remains a challenging agenda in the GMS. Previous experience shows the need to adopt a phased approach to formulate well-targeted and sequenced projects to ensure implementation of bilateral and regional commitments on cooperation and harmonization. Inadequate capacities at the country level are major constraints for effective regional cooperation in SPS arrangements. Development partners, such as the United Nations agencies, the World Bank and bilateral agencies support various aspects of SPS capacity building in the GMS, but ongoing projects have not addressed SPS issues in a comprehensive manner. Preparatory work has been firmly anchored in the lessons of international experiences that stress the need for prevention rather than end-of-pipe controls, which have proven to be costly and frequently ineffective. Involvement of the private sector and civil society in SPS capacity building is necessary to ensure the right technical issues and challenges are addressed and for longer-term sustainability. During the project preparation phase, workshops to consult the

³ Implementation progress of the proposed loans, grant, and TA will be reported to the cross-border transport agreement subcommittee on health.

⁴ Asian Development Bank. 2006. Regional Cooperation and Integration Strategy. <http://www.adb.org/documents/regional-cooperation-and-integration-strategy>.

private sector on SPS issues were held in Cambodia and the Lao PDR, which contributed to the overall project design. Likewise, coordination with the GMS working group on agriculture has been maintained.

B. Impact and Outcome

9. The impact will be Cambodia and Lao PDR AFF products that are safer, more efficiently produced, and traded in greater quantities. The outcome will be an enhanced SPS management system in Cambodia and the Lao PDR, which will contribute to intraregional trade, export competitiveness, and health protection.

C. Outputs

1. Output 1: Strengthened Surveillance and Inspection Programs

10. **Plant health.** Investments will focus on (i) conducting systematic surveillance and gathering and managing survey-based data; (ii) strengthening diagnostic and analytical services through technical regulations and investments in laboratory facilities, equipment, supplies, and human resources; (iii) improving international reporting of pest situations; (iv) conducting forest pest analysis to enable better understanding and management of forest health and associated SPS compliance; (v) introducing risk-based approaches to plant imports; and (vi) in the Lao PDR, strengthening the supply chains associated with crop products (initially corn, followed by rice) for growing regional markets, especially the People's Republic of China (PRC).

11. **Animal health.** The focus will be on strengthening surveillance programs by improving testing, diagnostic, and response capacity for priority transboundary animal diseases (foot and mouth disease, classical swine fever, and in Cambodia also hemorrhagic septicemia, and porcine reproductive and respiratory syndrome) with field implementation on a geographically targeted basis (i.e., border or livestock production provinces). In the Lao PDR, monitoring the safety of veterinary drugs, animal feeds, and animal products will be enhanced. In Cambodia, capacity to monitor veterinary drug residues will be supported. In both Cambodia and the Lao PDR, the project will promote risk-based import controls.⁵

12. **Food safety.** The focus will be on (i) designing and implementing annual programs of surveillance, monitoring, and inspection based on known and perceived risks of food safety hazards in specific products, locations, markets, hotels, and restaurants; and (ii) on hazard response capacity, which will include selectively strengthening laboratory capacities. The project will pursue improved food safety handling in the tourist industry by promoting good hygiene practices, good manufacturing practices, and enterprise grading. Once grading systems have been established, these services can be delivered by private providers. The project will support national studies on the possibilities for Cambodia and the Lao PDR to use assessments by other GMS countries for first-time market access requests for processed food products.⁶ Risk-based methods and updated manuals and procedures for controlling imported processed food in line with international recommendations and those of the Association of Southeast Asian Nations (ASEAN) will also be introduced.

⁵ Implementation will focus on provinces with international border posts and high levels of transit activity.

⁶ Followed by regional consultations to adopt a system for sharing information on first-time access assessments.

2. Output 2: Improved Regional Cooperation and Harmonization

13. The project will support Cambodia and the Lao PDR's active participation in regional fora such as the Southeast Asia and China Foot and Mouth Disease project; International Food Safety Authorities Network; ASEAN Rapid Alert System for Food and Feed; and twinning arrangements between Cambodia, the Lao PDR, and other countries on SPS issues. The project will support SPS regional cooperation and harmonization through bilateral working groups (including the PRC and Thailand) in the areas of plant health, animal health, and food safety.⁷ It will support the participation of respective national participants in the working groups and promote consultation on import handling.

3. Output 3: Enhanced Education Levels and University Training of Sanitary and Phytosanitary Specialists

14. The project will focus on upgrading academic education for SPS specialists by improving the quality of teaching at the Royal University of Agriculture (Cambodia) and the Faculty of Agriculture at the National University of Laos (with some participation by the University of Health Sciences). This will cover (i) curricula development, (ii) teaching quality improvement, and (iii) laboratory and teaching facilities upgrading. Where appropriate, the project will promote the use of government officials as guest lecturers.

4. Output 4: Effective Project Management

15. Project management and support services will focus on establishing project management units (PMUs) with support from international and national experts for SPS technical issues and for financial management and procurement. Component implementation units will be set up for compiling initial work plans and budgets from respective departments in Cambodia and the Lao PDR, and for day-to-day liaison on operational matters. PMUs will also facilitate engagement of the private sector and other stakeholders in project activities.

D. Investment and Financing Plans

16. The project is estimated to cost \$25.87 million (Table 1).

Table 1: Project Investment Plan (\$ million)

Item	Amount ^a		
A. Base Cost ^b	Cambodia	Lao PDR	Total
1. Plant health	2.33	3.12	5.45
2. Animal health	2.33	3.40	5.73
3. Food safety	1.68	2.48	4.16
4. Academic education	2.42	2.20	4.62
5. Project management	1.80	2.38	4.18
Subtotal (A)	10.56	13.58	24.14
B. Contingencies ^c	0.51	0.78	1.29
C. Financing Charges During Implementation ^d	0.34	0.10	0.44
Total (A+B+C)	11.41	14.46	25.87

^a Includes taxes and duties of \$1.20 million to be financed from the governments and the Asian Development Bank (ADB) grant and/or loan resources (\$0.58 million Cambodia and \$0.62 million the Lao People's Democratic Republic). Financing of taxes and duties from the proposed loans and grant is justified because (i) it will not represent an excessive share of the project investment plan, (ii) taxes and duties apply only with respect to ADB-

⁷ This will include the establishment of new bilateral groups (e.g., on animal health between Cambodia and the Lao PDR) where necessary.

financed expenditures, and (iii) financing of taxes and duties is material and relevant to the success of the project. ADB loans and grant may finance transportation and insurance costs.

^b In 2011 prices.

^c Physical contingencies computed at 5%–10% for civil works and 5%–10% for field research and development, training, surveys, and studies. Price contingencies computed on the basis of ADB international and domestic price escalation factors for respective countries; include provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Interest during implementation for the ADB loan(s) has been computed on standard Asian Development Fund terms—at 1.0% per annum.

Source: Asian Development Bank estimates.

17. To help finance the project, the Government of Cambodia has requested a loan in various currencies equivalent to SDR7.151 million, and the Government of the Lao PDR has requested a loan in various currencies equivalent to SDR1.942 million and a grant not exceeding \$11 million, all from ADB's Special Funds resources. The loans will have a 32-year term, including a grace period of 8 years, and interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the loan and financing agreements. Interest during implementation will be capitalized. ADB's total contribution to the project cost will be \$25 million, amounting to 96.6% of the total project cost. ADB will finance the recurrent costs to ensure smooth project implementation and promote longer-term capacity development. The Government of Cambodia will finance the equivalent of \$0.41 and the Government of the Lao PDR will finance the equivalent of \$0.46 million to cover the costs of staff, office space, and other in-kind contributions. Taxes and duties (on civil works, services, vehicles, and equipment) will be financed from the loan and/or grant proceeds, as applicable.

Table 2: Financing Plan

Source	Cambodia		Lao PDR		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
ADB loan	11.00	96.4	3.00	20.7	14.00	54.1
ADB grant	0.00	0.0	11.00	76.1	11.00	42.5
Government	0.41	3.6	0.46	3.2	0.87	3.4
Total	11.41	100.0	14.46	100.0	25.87	100.0

ADB = Asian Development Bank, Lao PDR = Lao People's Democratic Republic.

Note: Bank charges related to imprest accounts will be financed through the respective grant and loan proceeds.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

18. The Ministry of Agriculture, Forestry and Fisheries (MAFF) in Cambodia and the Ministry of Agriculture and Forestry (MAF) in the Lao PDR will be the executing agencies. In Cambodia, the undersecretary of state of MAFF will be the project director and will be responsible for overall coordination and management. MAFF will set up a PMU to be responsible for day-to-day project management. In Lao PDR, MAF will establish a PMU for coordination and management at its Department of Planning.

19. In Cambodia, the implementing agencies will be the General Directorate of Agriculture, the Department of Animal Health and Production, the Department of Drugs and Food (in collaboration with Camcontrol), and the Royal University of Agriculture. In the Lao PDR, the implementing agencies will be the Department of Agriculture, the Department of Livestock and Fisheries, the Food and Drugs Department, and the Faculty of Agriculture at the National University of Laos.

20. Implementation arrangements are summarized in Table 3 and detailed in the project administration manuals.⁸

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	October 2012–August 2017		
Estimated completion date	August 2017		
Management			
(i) Oversight body	Cambodia: Project committee Lao PDR: Project steering committee		
(ii) Executing agency	Cambodia: Ministry of Agriculture, Forestry and Fisheries Lao PDR: Ministry of Agriculture and Forestry		
(iii) Key implementing agencies	Cambodia: General Directorate of Agriculture; Department of Animal Health and Production; Department of Drugs and Food (with the participation of Camcontrol's laboratory department); and Royal University of Agriculture Lao PDR: Department of Agriculture; Department of Livestock and Fisheries; Food and Drugs Department; and Faculty of Agriculture at the National University of Laos		
(iv) Implementation unit	Cambodia: PMU (7 staff), each component implementation unit (2–3 staff) Lao PDR: PMU (8 staff), each component implementation unit (2–3 staff)		
		Cambodia	Lao PDR
Procurement ^a	International competitive bidding	Multiple contracts (\$1.43 million)	Multiple contracts (\$1.099 million)
	National competitive bidding	Multiple contracts (\$0.77 million)	Multiple contracts (\$1.074 million)
	Shopping	Multiple contracts (\$1.765 million)	Multiple contracts (\$2.254 million)
Consulting Services	Quality- and cost-based selection method	2 contracts (\$1.53 million) 72.75 person-months (international), 105 person-months (national)	2 contracts (\$3.915 million) 193 person-months (international), 254.5 person-months (national)
	Consultants' qualification selection method	Multiple contracts (\$1.13 million) 100 person-months (international), 4 person-months (national)	Multiple contracts (\$0.867 million) 71 person-months (international), 30 person-months (national)
	Individual consultants		2 contracts (\$0.06 million) 4.5 person-months (international)
	Fixed budget selection method	1 contract (\$0.46 million) 40 person-months (international)	1 contract (\$0.932 million) 90 person-months (international)
	Direct purchase and/or single-source selection	Multiple contracts \$0.01 million	
Advance contracting	The executing agencies/PMUs, with the support of the international procurement specialist (financed under related TA) and the project preparatory TA consultants, have proceeded with advance action prior to loan effectiveness.		
Disbursement	The grant and loan(s) proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2007, as amended from time to time) and detailed arrangements agreed upon between the respective governments and ADB.		

ADB = Asian Development Bank, Lao PDR = Lao People's Democratic Republic, PMU = project management unit, TA = technical assistance.

^a Proposed main contracts can contain small items that need to be procured through shopping.

Source: Asian Development Bank.

⁸ Project Administration Manuals (accessible from the list of linked documents in Appendix 2).

III. TECHNICAL ASSISTANCE

21. Regional capacity development TA—crucial for GMS SPS harmonization and support of project implementation will be attached to the project. The major outputs of the TA will be (i) improved SPS regional cooperation and harmonization, and (ii) effective monitoring and implementation of SPS projects. The TA will focus on harmonization of SPS information sharing and SPS procedures for plant products, animals, animal products, and food safety. The TA will support project implementation by (i) organizing joint training workshops of specialists in the areas of plant health, animal health, and food safety; (ii) supporting cross-boundary coordination; and (iii) designing a monitoring and evaluation framework for SPS capacity building.

22. The TA will be implemented from August 2012 to August 2017. It is estimated to cost \$750,000 and will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-IV). The TA will support 10 person-months of international and 30 person-months of national consultants' input, with expertise in project management and SPS issues. The consultants will be engaged on an individual basis to enable fast deployment and flexibility to undertake TA work. Short-term resource persons will be engaged to support regional meetings and training as needed. The activities of the consultants are not interdependent and the timing will be staggered because of the complexity of the project. All consultants and resource persons will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2010, as amended from time to time). ADB will be the executing agency and will work closely with agencies responsible for SPS measures and coordinating agencies in Cambodia, Lao PDR and Viet Nam. Disbursement under the TA will be done in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

IV. DUE DILIGENCE

A. Technical

23. A particular feature of project technical design has been to focus responsibility for the components dealing with plant health, animal health, food safety, and academic education for SPS capacity development firmly on the individual institutions in each country. Despite the institutional breadth within each component, technical interventions are broadly similar as they focus on strengthening surveillance and inspection systems and upgrading human resources, involving the provision of a range of technical expertise, training, workshops, and hardware to achieve this purpose.

24. The major technical design parameters are (i) a recognition that plant, animal, and food safety surveillance systems start from a low informational and human capacity base, and that enhancing SPS capacity should take a pragmatic and practical approach; (ii) promoting simple and cost-effective approaches where possible (e.g., use of rapid test kits, construction of shared laboratory facilities); and (iii) an emphasis on strengthening university teaching as opposed to research. The project has been designed to complement ongoing and planned interventions by various development partners and ADB. Subregional cooperation is promoted through participation in regional SPS fora, bilateral working groups, training attachments, academic exchanges, twinning, etc.

B. Economic and Financial

25. The economic rationale for the project rests largely on the “public goods nature” of the goods and services to be provided. Without intervention, the operation of SPS systems and many services, in the GMS will be suboptimum. This is especially the case where “weaker” or “weakest link technology” is involved and where the poorer member countries (Cambodia and the Lao PDR) lack the capacity to meet relevant international and regional standards for health and trade.⁹

26. Although institutional strengthening of SPS systems does not easily lend itself to quantification of economic impacts, benefits to each country are estimated to be \$5 million–\$10 million annually. Without the project, (i) the majority of Cambodia and Lao PDR AFF trade would remain relatively small-scale, informal, and therefore unrecorded, unregulated, and untaxed. With limited incentives for improving quality and safety—trade would remain unprocessed, not suitable for value-adding processes, and destined to low-end markets; (ii) specific AFF export opportunities (like rice, corn, fruit, and vegetables to the PRC and to high-end markets) would be lost; (iii) Cambodia and the Lao PDR would be at greater risk from various forms of pest invasions, transboundary animal disease outbreaks, and food safety risks for consumers, with consequent wider reputational implications for the GMS, especially in tourism; and (iv) Cambodia and the Lao PDR might become destinations for some substandard and potentially dangerous agricultural inputs and consumer products in the GMS.

27. The financial sustainability of the project is particularly important since SPS systems rely on recurrent funding to maintain surveillance and testing systems, and opportunities for cost recovery from the private sector are limited.¹⁰ Recurrent costs of survey and other operations are relatively high (about 20% of total project costs in both Cambodia and the Lao PDR). The fiscal implications have been discussed with the respective governments, which acknowledge and accept the recurrent cost implications.

C. Governance

28. All procurement to be financed by ADB loan and grant funds will be carried out in accordance with ADB’s Procurement Guidelines (2010, as amended from time to time). Project implementation, procurement, and financial management will be aligned with the governments’ standard operating procedures. The project accounts administered by the PMUs will be consolidated and audited annually by auditors acceptable to ADB. The project will strengthen capacities of staff in financial management procedures to allow the efficient operation of advance accounts and reporting of financial performance to the governments and ADB. The project will establish or use existing ministerial websites to (i) disclose implementation progress and bid notifications and their results, and (ii) provide a grievance mechanism against any corrupt practice.

⁹ Animal disease control and plant pest and disease management across long and porous borders are classic examples of where subregional performance can be determined by weaker members’ capacities because of transboundary spillover effects.

¹⁰ The potential for cost recovery through the charging of fees for services (e.g., testing of feeds, pesticides, food) is limited in both countries because of the modest size and sophistication of the private sector and the absence of regulatory-driven compliance incentives.

29. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the governments. The specific policy requirements and supplementary measures are described in the project administration manuals.¹¹

D. Poverty and Social

30. The project is classified general intervention and does not target poverty directly. However, by improving the SPS handling of AFF products in trade, the project will contribute to agricultural productivity and help make AFF trade more predictable, transparent, and with lower transaction costs. While there may be some adjustment costs to certain producers, the project will strengthen AFF value chains within and between GMS countries—extending back to the on-farm production environment. This will (i) create demand for on-farm and off-farm labor and primary AFF produce (i.e., agriculture and livestock products), and (ii) support incomes and gainful employment of poor rural households.¹²

31. As women dominate agricultural employment in Cambodia and the Lao PDR¹³ and their participation in tourist-related employment is high, they will particularly benefit from project investments. The project is categorized as having some gender benefits. Gender analyses have been undertaken and selected gender targets (women's participation in training) have been identified and reflected in the legal agreements and the design and monitoring framework.

E. Safeguards

32. The project is classified category C for impacts on the environment, involuntary resettlement, and indigenous peoples.

33. The project does not have a negative environmental impact and no implications for resettlement of any persons: (i) civil works are all small-scale and are on existing university sites, (ii) no construction activities will take place at border sites, and (iii) all systems upgrading takes place within existing facilities and premises.

F. Risks and Mitigating Measures

34. Major risks and mitigating measures are summarized in Table 4.¹⁴

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Lack of sustainability of project achievements because of insufficient government budget for recurrent cost and system maintenance	Awareness raising among policy makers about importance of operational funding for using and maintaining laboratory and surveillance capacities Establishment of annual work programs with clear (recurrent) budget requirements Government assurances reflected in loan and financing agreements
Weak staff capacities (quantity and quality) to conduct technical project activities (including at provincial level)	Consultants will provide technical expertise and formal and on-the-job training activities in all subcomponents Consultants will assist technical agencies to conduct specialized tasks

¹¹ Project Administration Manuals (accessible from the list of linked documents in Appendix 2).

¹² Poverty is now largely a rural phenomenon in Cambodia and the Lao PDR.

¹³ Women account for over 50% of those engaged in agriculture in the Lao PDR.

¹⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigating Measures
Weak institutional and staff capacities to implement the project in compliance with ADB requirements for project administration, financial management, and procurement	<p>Training of government staff is provided for project management and implementation (financial administration, financial management, monitoring and evaluation, and procurement)</p> <p>Consultants are recruited to support government staff in project management, financial management, and procurement</p>

ADB = Asian Development Bank.

Source: Asian Development Bank.

V. ASSURANCES

35. The governments have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manuals and loan and grant documents.

36. The governments have agreed with ADB on certain covenants for the project, which are set forth in the loan and financing agreements.

VI. RECOMMENDATION

37. I am satisfied that the proposed loans and grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan in various currencies equivalent to SDR7,151,000 to the Kingdom of Cambodia for the Trade Facilitation: Improved Sanitary and Phytosanitary Handling in Greater Mekong Subregion Trade Project, from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board;
- (ii) the loan in various currencies equivalent to SDR1,942,000 to the Lao People's Democratic Republic for the Trade Facilitation: Improved Sanitary and Phytosanitary Handling in Greater Mekong Subregion Trade Project, from ADB's Special Funds Resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft financing agreement presented to the Board; and
- (iii) the grant not exceeding \$11,000,000 to the Lao People's Democratic Republic from ADB's Special Funds resources for the Trade Facilitation: Improved Sanitary and Phytosanitary Handling in Greater Mekong Subregion Trade Project, on terms and conditions that are substantially in accordance with those set forth in the draft financing agreement presented to the Board.

Haruhiko Kuroda
President

4 June 2012

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact AFF products become safer, more efficiently produced, and traded in greater quantities	By 2020 Formal trade in AFF products to GMS increases annually by 15% (2009 baselines: \$166 million for Cambodia, \$284 million for Lao PDR) Incidence of food-borne diseases and related morbidity and mortality reduces by 10% (2004 baselines: DALYs 1,442 for Cambodia, 2,843 for Lao PDR) Tourism arrivals increase by 5%–10% annually (2009 baselines: 2 million for Cambodia, 2.2 million for Lao PDR)	National trade statistics; The World Integrated Trade Solution; United Nations Commodity Trade Statistics Database Reports of food-borne disease outbreaks (Food and Drugs Departments) and DALYs (World Health Organization) National Tourism Authority (Lao PDR), Ministry of Tourism (Cambodia) records	Assumption GMS governments continue to be committed to implement trade facilitation measures for AFF products Risk Lack of government commitment to fund operational costs for SPS system after 2016
Outcome Enhanced SPS management systems	By 2017 Three crop or product-specific market access agreements based on new pest and/or disease information (2010 baselines: 0) Effectiveness of animal disease outbreak response (14 responses per year in Cambodia, four responses in the Lao PDR) Effectiveness of food hazard response (product, violation, dispossession, compliance enforcement knowledge gained through training) 1,260 tourist and food processing enterprises in six major centers graded on good hygiene and manufacturing practices (2010 baselines: 0) GMS trading partners regard Cambodia and Lao PDR plant, animal, and food SPS data and practices as more reliable	National databases: MAFF, MAF, ministries of health, RUA, FA-NUOL Attitudinal survey of Cambodia and Lao PDR regional trading partners Project completion report Survey reports	Assumptions Trading partners continue to demand AFF products from Cambodia and the Lao PDR Tourism demand continues to grow Timely approval of project management plans and funds Risk Major new health hazards (e.g., SARS, avian, or swine flu) emerge, resulting in reallocation of resources for SPS activities
Outputs 1. Strengthened surveillance and inspection programs	Between 2012–2017 Programmed annual surveys of pest and disease information for priority crops (2010 baselines: no robust and systematic survey program in place) By 2017 Surveillance of transboundary animal diseases established in two provinces in the Lao PDR and two to three provinces in Cambodia (2010 baselines: no systematic risk-based surveillance) Risk-based, programmed annual food	Project monitoring and evaluation reporting Quarterly and annual monitoring and evaluation reporting ADB review missions Annual reports of MAFF, MAF National animal health and food safety institutions' reports	Assumptions Cambodia and Lao PDR governments' commitment to the GMS and regional processes continues Qualified consultants can be engaged Risk Technical, institutional, and administrative capacities to implement the projects

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks								
	safety surveys and inspection established in the capitals of Cambodia, the Lao PDR; rolled out to two to three areas in Cambodia and the Lao PDR (2010 baselines: no systematic risk-based surveys) National food laboratories selectively upgraded										
2. Improved regional cooperation and harmonization	By 2017 Active participation in Southeast Asia China Food and Mouth Disease project, International Food Safety Authorities Network and ASEAN Rapid Alert System for Food and Feed by sharing data and annual reporting (2010 baselines: no systematic data sharing and reporting) Bilateral working groups held, topics discussed, and agreement reached Institutional twinning arrangements implemented	Project monitoring and evaluation reporting Bilateral working groups' reports ADB review missions									
3. Enhanced education levels and university training of SPS specialists	By 2014 Teaching and laboratory facilities (three departments and/or faculties, shared microbiology laboratory in Cambodia, and one core facility equipment in the Lao PDR upgraded By 2017 Plant pest and disease, animal pest and disease, food safety curricula upgraded, with associated teaching materials produced (2010 baselines: insufficient curricula)	Project monitoring and evaluation reporting Annual reports of RUA, FA-NUOL, and University of Health Sciences ADB review missions									
4. Effective project management	By end of 2012 Two PMUs and eight component implementation units established and staffed By 2013 Financial management, procurement, and monitoring and evaluation systems established and operational	Project monitoring and evaluation reporting PMU reports Midterm evaluation									
Activities with Milestones 1. Surveillance and inspection programs 1. 1 Plant health program 1.1.1 Procure equipment and renovate laboratories by 2013 1.1.2 Design and implement time-bound pest surveys (8 per year) 1.1.3 Finalize pest lists at annual workshops (annually to 2017) 1.1.4 Design and implement seed health and pesticide testing programs (2012 onward) 1.1.5 Forest pests analysis, surveillance, technical meeting (2013) 1.1.6 Risk-based import workshops, manuals, training (18 workshops, 2017) 1.1.7 Report plant health situation to GMS countries and the International			Inputs ADB: \$25 million (ADF loan \$14 million; ADF grant: \$11 million) <table><tr><th>Item</th><th>Amount (\$ million)^a</th></tr><tr><td>Civil works</td><td>1.153</td></tr><tr><td>Vehicles and equipment</td><td>3.536</td></tr><tr><td>Consulting</td><td>8.874</td></tr></table>	Item	Amount (\$ million) ^a	Civil works	1.153	Vehicles and equipment	3.536	Consulting	8.874
Item	Amount (\$ million) ^a										
Civil works	1.153										
Vehicles and equipment	3.536										
Consulting	8.874										

Activities with Milestones	Inputs services
Plant Protection Convention (2017)	
1.1.8 Value chain analysis of corn (2013 onward) and rice (2014 onward), training of Government staff, private sector, and farmers (27 workshops per crop, by 2017, Lao PDR)	Training 2.898
1.2. Animal health program	Laboratory 2.282
1.2.1 Supply laboratory equipment and ICT; develop transboundary animal disease database (by 2013)	systems 4.465
1.2.2 Design and implement annual surveillance and response programs (2013)	Recurrent costs 0.220
1.3. Food safety program	administrative cost
1.3.1 Upgrade testing facilities, supply consumables (equipment, 2012 onward)	Interest during 0.429
1.3.2 Design and plan annual surveillance programs for safety of food and food-borne diseases (7,000 samples/year taken from markets, hotels, restaurants, street vendors, food establishments; under way on pilot basis 2013 onward)	Implementation 1.143
1.3.3 Food safety awareness campaign and materials (2012 onward)	Contingencies
1.3.4 Tourist enterprise pilot audit, grading system development; score cards, awareness raising campaign, training in good hygiene and manufacturing practices, enterprise advice (2012 onward)	Government: \$0.87 million
1.3.5 Award of tenders for tourism and/or food enterprises grading (in 2013)	Item Amount
1.3.6 Annual audit of restaurants (2014 onward)	(\$ million) ^a
1.3.7 Conduct first-time market access study for food products (2014)	Office space/ 0.715
1.3.8 Categorize imported food risks, develop inspection profiles (yearly, 2013 onward); import handling study, manuals (2013 onward)	counterpart staff 0.151
2. GMS and ASEAN regional cooperation	Contingencies
2.1 Plant, animal, food safety bilateral working groups established or strengthened (initial meetings 2013 onward)	ADB TA: \$0.75 million
2.2 INFOSAN, ASEAN Rapid Alert System for Food and Feed annual training workshops (1 each), first-time market access study (2014), workshops (2014, 2015), regional training annual	Consulting 0.46
3. Enhanced education levels/training of SPS specialists	services
3.1 Design improved curricula (2014); provide teaching materials (2017)	Training/ 0.19
3.2 RUA and FA-NUOL short courses (2 each in 2013–2015; 15% of trainees in Cambodia and 30% of trainees in the Lao PDR are female)	workshops
3.3 Postgraduate scholarships awarded (13 in total, at least 30% are female in the Lao PDR)	Miscellaneous 0.01
3.4 Provide on-site English language training (10–20 courses per year; 15% of students and staff attending in Cambodia and 30% in the Lao PDR are female)	Contingency 0.09
3.5 Construct shared microbiology and core laboratory and provide equipment (RUA, 2012 onward; FA-NUOL by 2015); (30% of users are female); upgrade laboratory and teaching equipment (RUA, by 2013; FA-NUOL by 2014)	
3.6 Upgrade transport (RUA 2012 onward; FA-NUOL 2013 onward)	
4. Implementation – project management and monitoring	
4.1 Set-up PMUs (2) and component implementation units (8) by mid-2012	
4.2 Financial management manual, procurement manual, and monitoring and evaluation framework prepared by end of 2012.	

ADB = Asian Development Bank; ADF = Asian Development Fund; AFF = agriculture, food, and forestry; ASEAN = Association of Southeast Asian Nations; DALY = disability adjusted life year; FA-NUOL = Faculty of Agriculture at the National University of Laos; GMS = Greater Mekong Subregion; ICT = information and communication technology; INFOSAN = International Food Safety Authorities Network; Lao PDR = Lao People's Democratic Republic; MAF = Ministry of Agriculture and Forestry (Lao PDR); MAFF = Ministry of Agriculture, Forestry and Fisheries (Cambodia); PMU = project management unit; SPS = sanitary and phytosanitary; RUA = Royal University of Agriculture (Cambodia); TA = technical assistance.

^a Base cost.

Source: Asian Development Bank

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/RRPs/?id=43120-013-3>

1. Loan Agreement: Cambodia
2. Financing Agreement: Lao People's Democratic Republic
3. Sector Assessment (Summary): Industry and Trade
4. Project Administration Manual: Cambodia
5. Project Administration Manual: Lao People's Democratic Republic
6. Contribution to the ADB Results Framework
7. Development Coordination
8. Economic and Financial Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Risk Assessment and Risk Management Plan

Supplementary Documents

12. Economic Analysis
13. Detailed Sanitary and Phytosanitary (SPS) Issues Sector Assessment
14. Regional Capacity Development Technical Assistance